# HaMMR Digest

**Stay current with economic and mortgage market trends.**

## July 10, 2023

**Parker Ross** — Global Chief Economist
pross@archgroup.com | 914 216 7270

**Leonidas Mourelatos** — Director of Real Estate Economics
lmourelatos@archgroup.com | 631 521 9048

**ARCH MORTGAGE INSURANCE COMPANY® | 230 NORTH ELM STREET GREENSBORO NC 27401 | ARCHMI.COM**

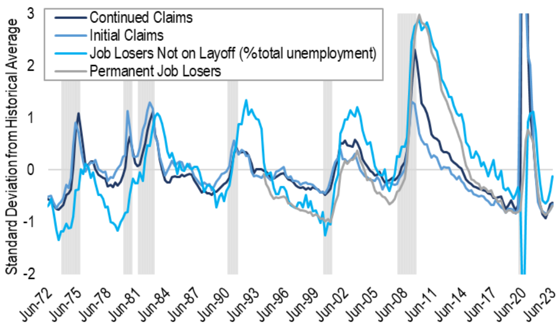
## Weekly Wrap — Making Headway

- June payrolls ticked up at the slowest pace since 2020 — more evidence that slack is building in the labor market.
- Gradual labor market normalization is keeping upward pressure on wages and a July rate hike firmly in play.
- Other economic data point to a resilient economy failing to materially slow with housing playing a pivotal role.

The moment many analysts have been waiting for arrived: June payrolls missed consensus expectations for the first time in fifteen months, advancing 209k m/m vs. expectations for a 230k gain. Downward revisions of -110k for the prior two months dropped the six-month average to 278k from 445k a year ago. Aside from the headline miss, underlying details point to the gradual building of slack, though not in a uniform manner. Thus, a broad and deep downturn brought about by the labor market finally "breaking" is off the table in the near term. Case in point, the unemployment rate dropped to 3.6% (cons. 3.6%) from 3.7% for good reasons as the number of employed rose 273k while the number of unemployed fell -140k. Impressively, the prime-age employment rate continued to defy gravity, rising to 80.9%, a more than 20-year high showcasing that the labor market is healthy enough to keep drawing more workers off the sidelines.

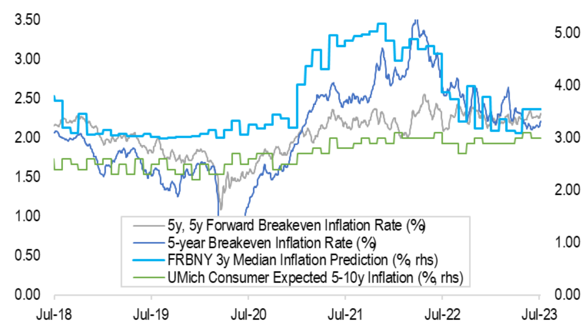
As mentioned, signs are clear that slack is building, but arguably not fast enough for the Fed. Measures of labor demand, including temporary staffing levels and consumers' assessment of labor market health have fallen to or below February 2020 levels. In addition, measures of job loss have risen, albeit from very low levels (Figure 1). Initial jobless claims have led the way compared to other metrics, which is not typically the case in the lead-up to recession. It seems that rolling sectoral weakness as opposed to widespread layoffs is in play, whereby those laid off have found work in other industries. Indeed, flows from unemployed to employed picked up in June with the median weeks of unemployment roughly flat since the start of the year. The fact that the labor market is healthy has kept upward pressure on wages — total payroll income for non-managers rose at a three-month annualized pace of 5.1% in June, down from 8.5% in March but still far too high to lend comfort to the Fed that cooling wage growth will aid in their inflation battle (Figure 2).

**Figure 1: Measures of Job Loss**




*Sources: DoL, BLS, Arch MI*

**Figure 2: Inflation Expectation Monitor**




*Source: Bloomberg, University of Michigan, Federal Reserve Board, FRBNY, Arch MI*

The jobs report overshadowed heavy data flow from the prior two weeks that generally pointed to a resilient economy led by rising real disposable income, a healthy construction cycle and a recovering housing market. Measures of consumer confidence have improved but these have not led to a sustained bounce in consumer spending after the 1Q surge as real spending growth averaged just 0.1% over the last three months. Businesses have been signaling caution based on survey data, especially the June ISM Manufacturing PMI that fell to a new cycle low of 46 and has been below the breakeven 50 level for eight months. That contrasts with recovering industrial production, while real core capital goods orders and shipments both rose for consecutive months in May. Construction spending kept chugging along in May, up 0.9% (cons. 0.4%) with residential spending up 2.1%, the first positive print in a year. Improving residential construction has followed rising homebuilder sentiment as May new home sales beat expectations again, rising 12.2% m/m (cons. -1.2%), the third straight monthly advance. The strength in new home construction contrasts with the resale market — May pending sales of existing home fell -2.7% m/m (cons. -0.5%) toward the cycle low hit in November. Nonetheless, a supply-demand imbalance persists in the resale market that has propelled a nearly complete recovery in home prices.

## Recent Data Releases

Key economic and housing data releases over the last week:

| Date | Indicator | Period | Actual | Consensus | Previous | Note |
|---|---|---|---|---|---|---|
| 6/27/23 | FHFA House Price Index m/m | Apr | **0.7%** | 0.5% | 0.5% | sa |
| 6/27/23 | S&P CoreLogic CS 20-City m/m SA | Apr | **0.9%** | 0.4% | 0.4% | sa |
| 6/27/23 | S&P CoreLogic CS 20-City y/y NSA | Apr | **-1.7%** | -2.4% | -1.1% | nsa |
| 6/27/23 | New Home Sales | May | **763** | 676 | 680 | k, saar |
| 6/27/23 | New Home Sales m/m | May | **12.2%** | -1.0% | 3.5% | sa |
| 6/27/23 | Conf. Board Consumer Confidence | Jun | **109.7** | 104.0 | 102.5 | index, sa |
| 6/29/23 | GDP Annualized q/q | 1Q T | **2.0%** | 1.4% | 1.3% | saar |
| 6/29/23 | Personal Consumption q/q | 1Q T | **4.2%** | 3.8% | 3.8% | saar |
| 6/29/23 | Core PCE Inflation q/q | 1Q T | **4.9%** | 5.0% | 5.0% | saar |
| 6/29/23 | Pending Home Sales m/m | May | **-2.7%** | -0.5% | -0.4% | sa |
| 6/29/23 | Pending Home Sales y/y | May | **-20.8%** | -20.5% | -22.8% | nsa |
| 6/30/23 | Personal Income | May | **0.4%** | 0.3% | 0.3% | m/m, sa |
| 6/30/23 | Personal Spending | May | **0.1%** | 0.2% | 0.6% | m/m, sa |
| 6/30/23 | Real Personal Spending | May | **0.0%** | 0.1% | 0.2% | m/m, sa |
| 6/30/23 | PCE Inflation m/m | May | **0.1%** | 0.1% | 0.4% | sa |
| 6/30/23 | PCE Inflation y/y | May | **3.8%** | 3.8% | 4.3% | nsa |
| 6/30/23 | PCE Core Inflation (ex Food and Energy) m/m | May | **0.3%** | 0.3% | 0.4% | sa |
| 6/30/23 | PCE Core Inflation (ex Food and Energy) y/y | May | **4.6%** | 4.7% | 4.7% | nsa |
| 6/30/23 | U. of Mich. Sentiment | Jun F | **64.4** | 63.9 | 63.9 | index, nsa |
| 6/30/23 | U. of Mich. 1 Yr Inflation | Jun F | **3.3%** | 3.3% | 3.3% | nsa |
| 6/30/23 | U. of Mich. 5-10 Yr Inflation | Jun F | **3.0%** | 3.0% | 3.0% | nsa |
| 7/3/23 | S&P Global US Manufacturing PMI | Jun F | **46.3** | 46.3 | 46.3 | index, sa |
| 7/3/23 | ISM Manufacturing | Jun | **46.0** | 47.1 | 46.9 | index, sa |
| 7/3/23 | ISM Prices Paid | Jun | **41.8** | 44.0 | 44.2 | index, nsa |
| 7/5/23 | Wards Total Vehicle Sales | Jun | **15.7** | 15.4 | 15.1 | m, saar |
| 7/6/23 | MBA Mortgage Applications | 6/30/23 | **-4.4%** | -- | 3.0% | w/w, sa |
| 7/6/23 | ADP Employment | Jun | **497** | 225.00 | 267.00 | k, m/m, sa |
| 7/6/23 | Initial Jobless Claims | 7/1/23 | **248** | 245.00 | 236.00 | k, sa |
| 7/6/23 | Continuing Claims | 6/24/23 | **1,720** | 1,737.00 | 1,733.00 | k, sa |
| 7/6/23 | S&P Global US Services PMI | Jun F | **54.4** | 54.1 | 54.1 | index, sa |
| 7/6/23 | S&P Global US Composite PMI | Jun F | **53.2** | 53.0 | 53.0 | index, sa |
| 7/6/23 | JOLTS Job Openings | May | **9.8** | 9.9 | 10.3 | m, sa |
| 7/6/23 | ISM Services Index | Jun | **53.9** | 51.2 | 50.3 | index, nsa |
| 7/7/23 | Nonfarm Payrolls | Jun | **209** | 230.00 | 306.00 | k, m/m, sa |
| 7/7/23 | Private Payrolls | Jun | **149** | 200.00 | 259.00 | k, m/m, sa |
| 7/7/23 | Unemployment Rate | Jun | **3.6%** | 3.6% | 3.7% | sa |
| 7/7/23 | Average Hourly Earnings m/m | Jun | **0.4%** | 0.3% | 0.4% | sa |
| 7/7/23 | Average Hourly Earnings y/y | Jun | **4.4%** | 4.2% | 4.4% | nsa |
| 7/7/23 | Average Weekly Hours All Employees | Jun | **34.4** | 34.3 | 34.3 | sa |
| 7/7/23 | Labor Force Participation Rate | Jun | **62.6%** | 62.6% | 62.6% | sa |

*Sources: Bloomberg Consensus Survey of Economists, Arch MI*

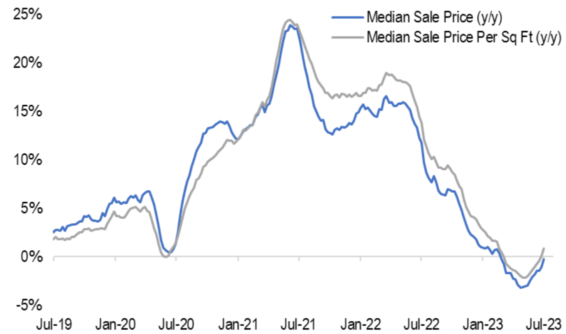
**Green** = beat expectations; **Red** = worse than expectations; (compared vs. prior if no consensus estimates available)

**HOME PRICES NEARLY BACK TO 2022 PEAK**

The housing market has adjusted to a persistently lower level of demand with remarkable speed as inventory has remained near historic lows. Accordingly, home prices have stabilized after rapid declines in the second half of 2022 and have nearly recovered to the 2022 peak on a seasonally adjusted basis during the week ending July 2, per Redfin data. Annual growth in the national median sale price per square foot (ppsf) accelerated to 0.9% y/y from 0% last week and -1.1% four weeks ago, all of which represent a drastic slowdown from the 13.8% annual gain recorded at this time last year (Figure 3).

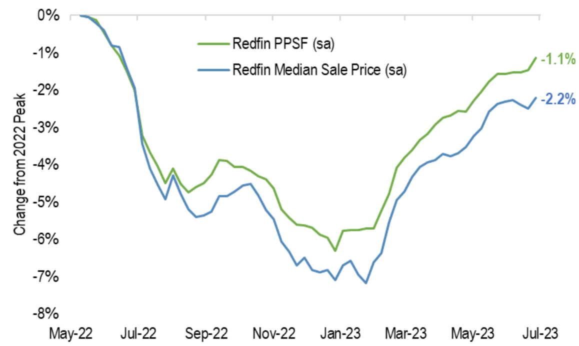
Meanwhile, the 13-week (i.e., quarterly) change in the seasonally adjusted ppsf was up 1.9%, or 7.6% annualized, up slightly from 1.8% the previous week (7.3% annualized) and the first sequential acceleration since the first week of May. Impressively, during just the first half of 2023, the median ppsf has already climbed a seasonally adjusted 5.5%. To put that figure into context, in the five years preceding the pandemic, annual growth in the median ppsf averaged 5.8%. The strong start to the year has nearly erased the 6% decline in prices from the 2022 peak (Figure 6), with the most recent median ppsf just 1.1% below the seasonally adjusted May 2022 level.

**Figure 3: Annual Home-Price Growth**




*Source: Redfin, Arch MI*

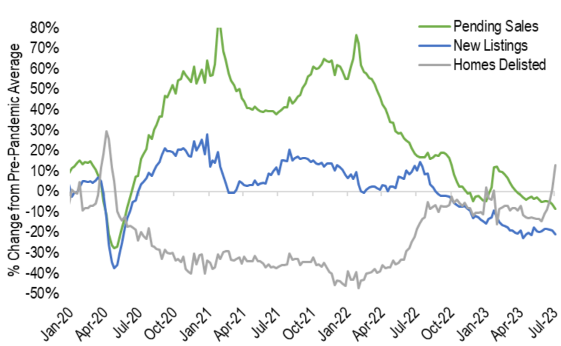
**Figure 4: Home-Price Change Since 2022 Peak**




*Source: Redfin, Arch MI*

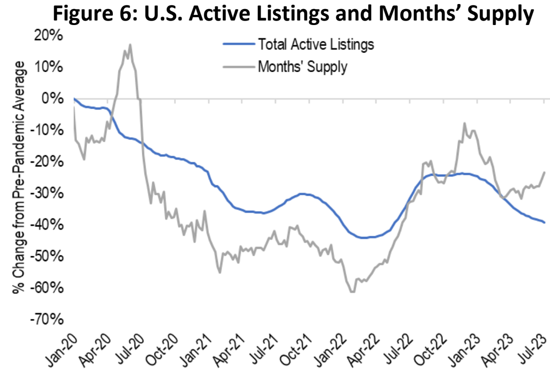
Given the continued affordability squeeze, the recent pace of pending sales cooled further to -9% below the pre-pandemic average for this time of year (Figure 5) from -6% below last week and -3% in mid-May. Potential sellers have also pulled back as new listings declined to -21% below the pre-pandemic average from roughly -15% at the start of the year. Meanwhile, the number of delisted homes rose to 13% above the pre-pandemic average for this time of year from -10% at the end of 2022.

**Figure 5: U.S. Existing Home Sales Market Dynamics**




*Source: Redfin, Arch MI*

**Figure 6: U.S. Active Listings and Months' Supply**




*Source: Redfin, Arch MI*

The decline in new listings and increase in delisted homes offset the further cooling pace of sales and pushed the number of active listings down to -39% below the pre-pandemic average and well below last year's peak of -25% (Figure 6). Despite total homes sold being down -23% y/y and -22% below the pre-pandemic average, the national market remains somewhat tight given months' supply is 2.4 months, -23% below the pre-pandemic average for this time of year. The current months' supply is a modest increase from the 2.1 months recorded for the same week in 2022 when the market was starting to cool from incredibly tight conditions.

Of the major metros we track (Figure 7), annual home-price growth was weakest in Austin (-13%), Phoenix (-9%), Dallas (-5%), Riverside (-4%) and Denver (-4%). Home-price growth slowed most rapidly compared with a year ago in Tampa (-31%-pts), Dallas (-29%-pts), Phoenix (-29%-pts), Austin (-27%-pts) and Nashville (-26%-pts). Conversely, annual home-price growth was strongest in Washington, D.C. (5%), Baltimore (5%) and Miami (5%). Median days on the market have decreased in most metros (13 days below nationally) as the market has rebounded but a handful of metros still exceed their pre-pandemic timelines. Markets with the longest median days on the market relative to the pre-pandemic norm include Austin (27 days longer), Chicago (20) and Boston (8), while some markets like New York (-35) and Riverside (-12) remained well below pre-pandemic timelines. Markets that have deteriorated the most based on months' supply include Austin, Portland and Nashville, where months' supply climbed to a respective 73%, 9% and 4% relative to their pre-pandemic averages from 19%, -19% and -39% below one year ago. Months' supply remained below pre-pandemic levels in most markets (-23% below nationally), with Baltimore (-40%), San Diego (-31%), Riverside (-25%), New York (-24%) and Tampa (-20%) remaining the tightest relative to their pre-pandemic averages.

**Figure 7: Weekly Housing Monitor (as of July 2, 2023)**

| Metro | Median Sale Price Per Square Foot (y/y) | | Active Listings with Price Drops | | Share of Homes Sold Above List | | Average Sale-to-List Ratio | | Total Active Listings (y/y) | Median Days on Market vs Pre-COVID | | Months' Supply vs Pre-COVID | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current | Year Ago | Current | (Δ y/y, ppt) | Current | (Δ y/y, ppt) | Current | (Δ y/y, ppt) | | Current | Year Ago | Current | Year Ago |
| **All Redfin Metros** | **1%** | **14%** | **6%** | **0%** | **37%** | **-14%** | **100%** | **-2%** | **-12%** | **-13** | **-20** | **-23%** | **-33%** |
| Atlanta | 0% | 23% | 6% | 0% | 36% | -20% | 99% | -2% | -6% | -6 | -14 | -14% | -33% |
| Austin | -13% | 14% | 9% | 0% | 17% | -36% | 98% | -4% | 16% | 27 | 7 | 73% | 19% |
| Baltimore | 5% | 8% | 5% | -1% | 54% | -2% | 102% | 0% | -20% | -11 | -14 | -40% | -43% |
| Boston | 2% | 10% | 4% | -1% | 65% | -9% | 104% | -2% | -24% | 8 | 7 | -18% | -20% |
| Chicago | 2% | 9% | 3% | 0% | 49% | -4% | 101% | 0% | -29% | 20 | 20 | -8% | -5% |
| Dallas | -5% | 24% | 8% | 0% | 31% | -33% | 99% | -4% | -3% | -4 | -14 | -19% | -26% |
| Denver | -4% | 14% | 10% | 3% | 38% | -22% | 100% | -3% | -8% | 1 | -3 | 4% | -15% |
| Houston | -1% | 18% | 7% | -1% | 23% | -20% | 98% | -2% | 10% | -6 | -18 | -18% | -40% |
| Los Angeles | -4% | 11% | 4% | -1% | 53% | -12% | 102% | -2% | -25% | -6 | -9 | -13% | -11% |
| Miami | 5% | 21% | 3% | 0% | 18% | -15% | 97% | -2% | -8% | -8 | -17 | -20% | -43% |
| Minneapolis | 1% | 8% | 6% | 1% | 54% | -10% | 102% | -2% | -12% | -5 | -8 | -10% | -23% |
| Nashville | -2% | 24% | 6% | 0% | 22% | -26% | 99% | -3% | 28% | -6 | -26 | 4% | -39% |
| New York | -2% | 12% | 4% | 0% | 32% | -5% | 100% | -1% | -17% | -35 | -43 | -24% | -35% |
| Phoenix | -9% | 20% | 6% | -5% | 21% | -21% | 99% | -2% | -22% | 2 | -15 | -8% | 4% |
| Portland | -1% | 12% | 7% | -1% | 44% | -13% | 101% | -2% | -8% | -3 | -5 | 9% | -19% |
| Riverside | -4% | 18% | 5% | -2% | 44% | -15% | 100% | -1% | -25% | -12 | -20 | -25% | -20% |
| San Diego | 2% | 13% | 5% | -2% | 55% | -1% | 101% | 0% | -39% | -6 | -6 | -31% | -14% |
| Seattle | -1% | 12% | 7% | -3% | 43% | -6% | 101% | -1% | -33% | -2 | -2 | -3% | 4% |
| Tampa | -3% | 28% | 9% | -2% | 20% | -27% | 98% | -3% | 10% | -7 | -22 | -20% | -35% |
| Washington DC | 5% | 8% | 4% | -1% | 50% | -3% | 101% | 0% | -25% | 5 | 0 | -16% | -16% |

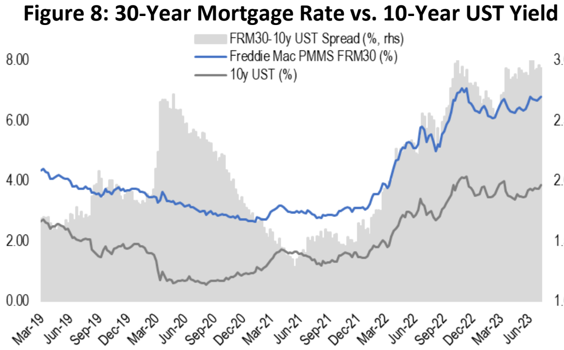
*Note: Data reflects four-week averages.*

*Source: Redfin, Arch MI*

## MORTGAGE PURCHASE APPLICATION ACTIVITY CONTINUED TO SHOW TENTATIVE SIGNS OF BOTTOMING

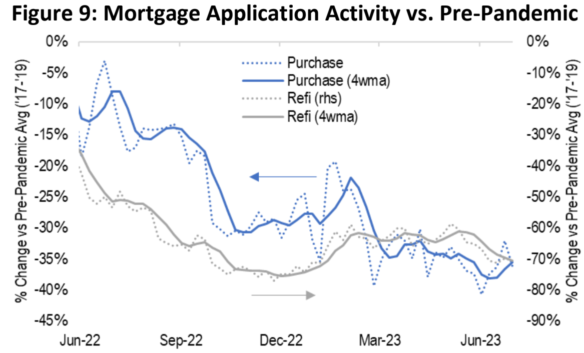
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate rose 10bps to 6.85% during the week ending June 30 while the FHA contract mortgage rate also rose 5bps to 6.68%, resulting in a -5bps contraction in the spread between the FHA and conventional mortgage rate to -0.17%. Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending July 5 indicated that the FRM30 climbed 10bps w/w to 6.81% (Figure 8) as the yield on the benchmark 10-year U.S. Treasury (UST) jumped 13bps to an average of 3.88% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -3bps to 2.94%, about 125bps wider than its typical non-stressed level prior to the pandemic and still close to the recent peak just above 300bps. We expect rate volatility and mortgage spreads to remain wide until more clarity is gained around the path of inflation and monetary policy, which is not likely to occur until later this summer.

**Figure 8: 30-Year Mortgage Rate vs. 10-Year UST Yield**




*Sources: Freddie Mac Primary Mortgage Market Survey, Federal Reserve Board, Arch MI*

**Figure 9: Mortgage Application Activity vs. Pre-Pandemic**



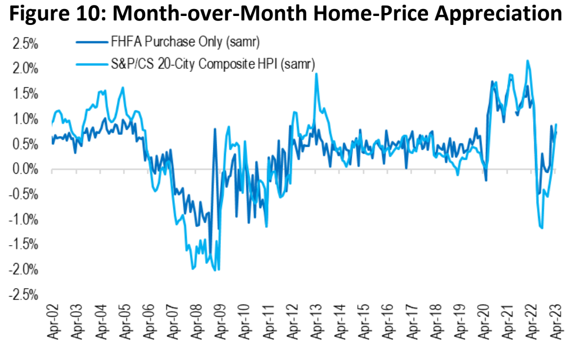

*Sources: Mortgage Bankers Association, Arch MI*

The MBA Weekly Applications Survey for the week ending June 30 declined -4.4% w/w, leaving the index down -32% year-over-year and down -53% compared with pre-pandemic levels (i.e., the average of the same week in 2017, 2018 and 2019). The weekly decline was driven primarily by a -4.6% decline in purchase applications, which remained down -30% y/y and -36% below the pre-pandemic level (Figure 9). Refinancing applications declined -4.1% w/w and were down -37% y/y and -71% relative to pre-pandemic levels.

**HOME PRICES REBOUNDED FURTHER IN APRIL**

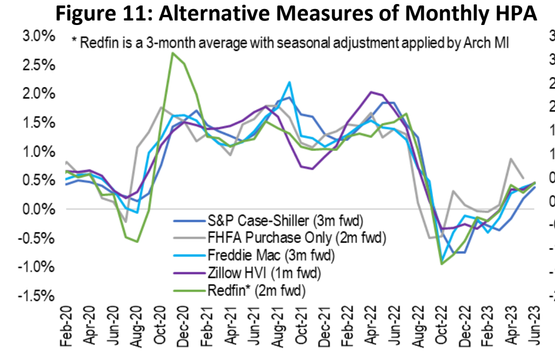
Repeat-sales home price index (HPI) growth improved again in April. The FHFA Purchase Only (PO) HPI rose a robust 0.7% m/m (cons. 0.5%) on a seasonally adjusted basis, the fourth consecutive increase and a slight acceleration from the 0.5% gain in March (Figure 10). The S&P/Case-Shiller 20-City Composite HPI rose 0.9% (cons. 0.4%) in April, the second consecutive uptick. Nineteen metropolitan areas within the 20-city composite recorded monthly gains (only Phoenix was negative at -0.1%), an improvement from 14 in March and zero in December. Price gains were most pronounced in Cleveland (1.8%), Boston (1.5%) and New York (1.3%). Other more real-time measures of home price appreciation (HPA) had already shown a similar improvement in the monthly trend (Figure 11). Based on data from Redfin, monthly home-price appreciation (HPA) continued to trend higher in May and June. While these improvements should be reflected in subsequent releases of the repeat-sales HPIs, the recent upward trend in mortgage rates toward 7% will likely dampen price momentum over the summer.

**Figure 10: Month-over-Month Home-Price Appreciation**




Sources: S&P, FHFA, Arch MI

**Figure 11: Alternative Measures of Monthly HPA**




Sources: S&P, FHFA, Freddie Mac, Optimal Blue, Redfin, Zillow, Arch MI

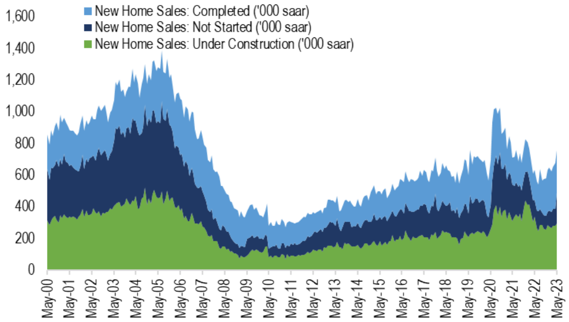
It is important to note that during periods of market volatility, there can be divergences between the FHFA and S&P/Case-Shiller HPIs. Index compositional differences are a factor where the FHFA index is compiled based on conforming, conventional loans purchased and securitized by the GSEs (data included in the index are based on loan origination data) while the S&P/Case-Shiller index captures more transactions and uses a different weighting that places greater emphasis on regions with higher home values. The S&P/Case-Shiller index is a three-month average of closed sales, implying that closed sales for the most recent February–April period could include contracts signed as far back as January.

**NEW HOME SALES IS WHERE DEMAND SHINES**

Data from the U.S. Census Bureau showed new home sales climbed for the eighth time in the last nine months through May, rising 12.2% m/m (cons. -1.2%) to a seasonally adjusted annual rate of 763k (cons. 675k) from 680k in April (revised down from 683k). With the multi-month upward trend, new home sales are up 20% y/y and 17% above the pre-pandemic pace of sales (Figure 12). Notably, new home sales have been rising since September, albeit on a choppy path, while existing home sales have remained more depressed. Recent commentary from public home builders indicate that demand has steadily improved this year, which confirms the recent improvement in the National Association of Home Builders (NAHB) sentiment index. Additionally, the use of incentives by builders to move product has likely played a factor in bolstering new home sales, which leaves existing home sellers at a relative disadvantage. Accordingly, new home sales comprised 14% of the total home sales market over the past 3 months, up from 11% at the onset of the pandemic.

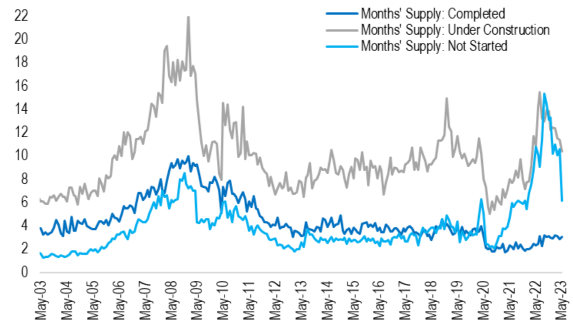
 

**Figure 12: New Home Sales by Stage of Construction**




Sources: Census Bureau, Arch MI

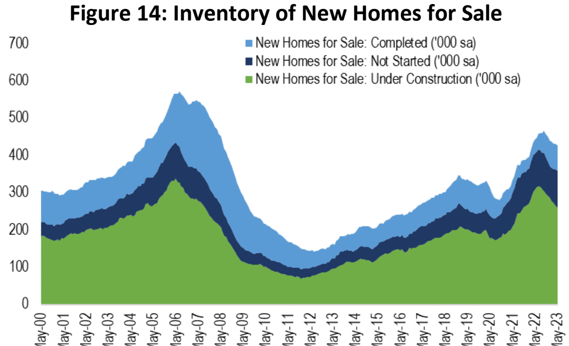
**Figure 13: Months' Supply by Stage of Construction**




Sources: Census Bureau, Arch MI

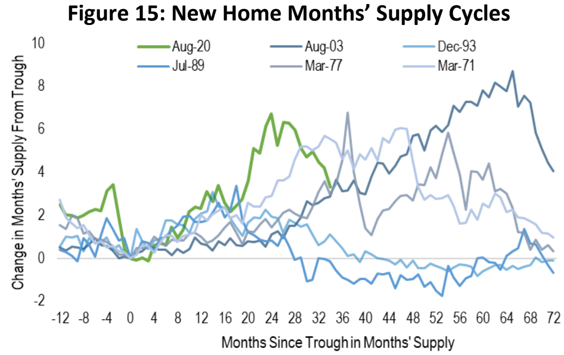
While new home sales continued to trend up, the supply of new homes has not seen a concomitant steady rise, declining -0.9% m/m and the sixth decline in the last seven months. The inventory of new homes for sale in May represented a 6.7 months' supply, down from the cycle peak of 10.1 months back in July and not too far above the historical average of 6 months. Completed home sales fell -7% m/m but remained up 11% from four years ago. The supply of completed, ready-to-occupy inventory has been roughly flat over the prior four months but up 92% from one year ago. The rise of completed home inventory reflects a normalization of supply chain constraints rather than a sign of stress, given the median time to sell a completed home was just 2.7 months (not seasonally adjusted) in May, down -4% y/y. Additionally, builders continued to prioritize completing units already under construction instead of breaking new ground, which has lifted the months' supply of completed homes to 3.1 months, slightly below where it stood at the onset of the pandemic (Figure 13). The bulk of new home inventory remains skewed toward units not started and under construction, which comprise 84% of the total inventory when combined (Figure 14).

**Figure 14: Inventory of New Homes for Sale**




Sources: Census Bureau, Arch MI

**Figure 15: New Home Months' Supply Cycles**




Sources: Census Bureau, Arch MI

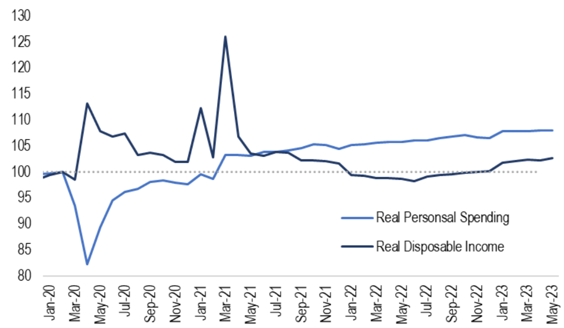
Homebuilders have managed through this whiplash-inducing housing cycle much better than during the Global Financial Crisis (GFC). The current cycle for the new home market has been defined by extremes: The pace, magnitude and duration of the slump has been quite unique. The months' supply of new homes surged from a record low of 3.3 months in August 2020 (defined as the peak of the cycle) to a peak of 10.1 months in July 2022 (defined as the trough of the cycle), or an increase of 6.8 months — a deterioration surpassed only by the GFC when months' supply climbed by 8.7 months to a peak of 12.2 months (Figure 15). However, it took over half a decade for the new home sales market to go from its cycle peak in August 2003 to its trough in January 2009, compared with just under two years for the current cycle. Even more impressively, the months' supply of new homes has returned to within shouting distance of its historic average a mere few months after enduring a historic downturn.

**CONSUMERS TURNING OFF THEIR AFTERBURNERS**

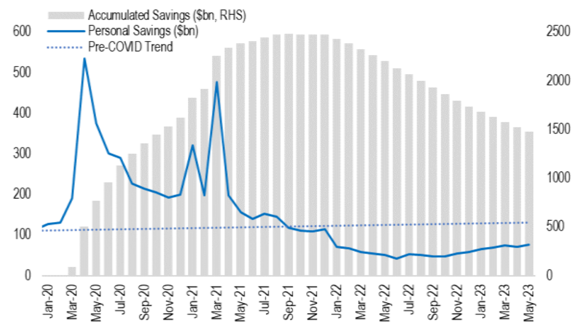
The May personal income and outlay report was not as poor as the headline would suggest, at least from the spending perspective. Nominal personal income remained sturdy, rising 0.4% m/m (cons. 0.3%) with steady gains for private wages as the labor market remained tight. Indeed, private wages grew 0.5% m/m and 5.3% on a three-month annualized basis in May, slightly higher than the prior three-month average. An additional support to income came from the 0.5% m/m advance in personal interest income — likely a reflection of individuals moving deposits out of the banking system and into higher-yielding money market funds. Nominal spending was on the softer side, rising 0.1% m/m (cons. 0.2%) with real spending flat (cons. 0.1%) after a 0.2% advance in April. Autos has been a volatile category that declined a hefty -4.3%, contributing a -20bps drag on headline spending with the ex-autos grouping rising 0.2% on the month. Real disposable income continued to rise on a three-month annualized basis, up 2.4% in May after an 2.2% gain in April, pushing the absolute level further above where it started the pandemic (Figure 16).

**Figure 16: Real Income and Spending (Feb. 2020 = 100)**




Sources: BEA, Arch MI

**Figure 17: Personal Savings**



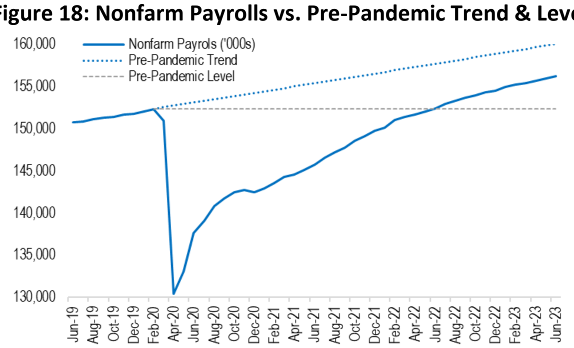

Sources: BEA, Arch MI

With disposable income besting the pace of spending in May, the savings rate rose 30bps m/m to 4.6%. Given the ongoing strength of the labor market and recovery in real incomes, households do not need to dip into their savings and tap revolving credit lines as much to support expenditures. It is important to note that savings accumulated during the pandemic (Figure 17) do not necessarily need to be fully depleted in aggregate as households may view that savings as a form of wealth, akin to household equity or a 401(k) instead of a source for daily spending.

**JUNE PAYROLLS MISS BUT REMAINED SOLID**

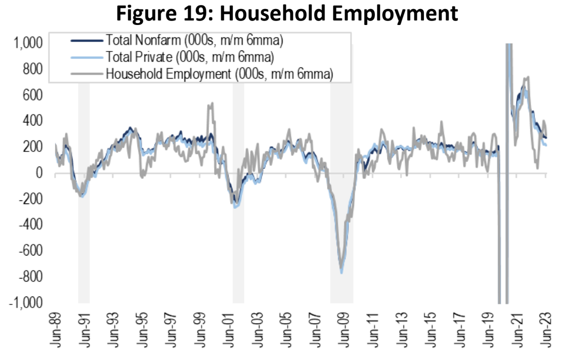
June job growth of 209k (cons. 230k) finally broke the streak of 15 consecutive months of beating consensus economist forecasts and brought the three-month average down to 244k from 247k in April with a combined downward revision of -110k to job growth in April and May. Through June, the U.S. economy had 3.8 million more jobs than prior to the pandemic (i.e., February 2020) but remained well below the pre-pandemic trend (Figure 18).

**Figure 18: Nonfarm Payrolls vs. Pre-Pandemic Trend & Level**




Sources: Bureau of Labor Statistics, Arch MI

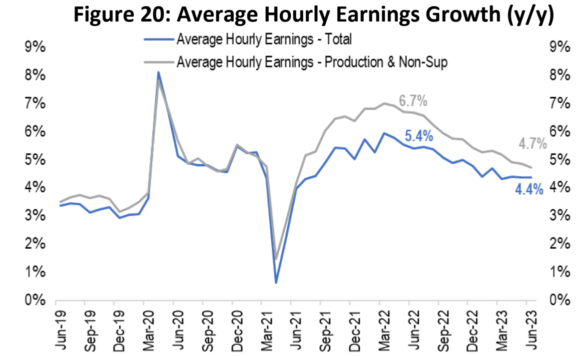
**Figure 19: Household Employment**




Sources: Bureau of Labor Statistics, Arch MI

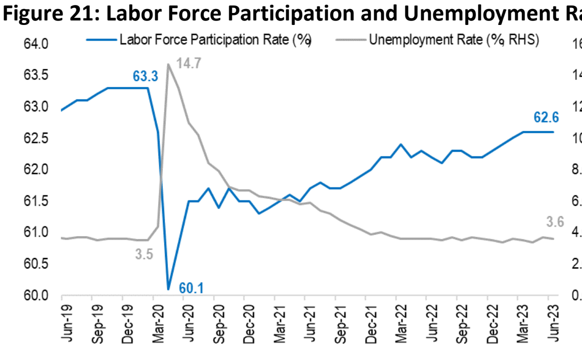
Private job gains were led by education and health services (73k), construction (23k) and leisure and hospitality (21k). Goods-producing sectors, typically more cyclically sensitive than the services employment, added 29k net payrolls on the month with total hours worked for non-managers rising a strong 0.4% m/m or 3.2% annualized. The breadth of payroll gains eased slightly in June, as reflected by the one-month diffusion index falling to 58.0 from 61.2. Household employment rebounded in June by 273k and is back in line with the trend in nonfarm payroll growth (Figure 19). However, on an annual basis household employment is up 2,937k compared to establishment payrolls up 3,833k, with the risk that downward revisions could be forthcoming for the payroll survey. Hourly earnings rose 0.4% m/m (cons. 0.3%) in June and 4.4% y/y (Figure 20) as the unemployment rate fell 10bps to 3.6% (cons. 3.6%) due to a -140k m/m decline in the number of unemployed while the labor force participation rate held steady at 62.6% (Figure 21). Underlying labor market strength remains despite obvious signs of cooling over the past year, which gives the Fed room to remain vigilant should inflation remain elevated in the months ahead.

**Figure 20: Average Hourly Earnings Growth (y/y)**




*Sources: Bureau of Labor Statistics, Arch MI*

**Figure 21: Labor Force Participation and Unemployment Rates**

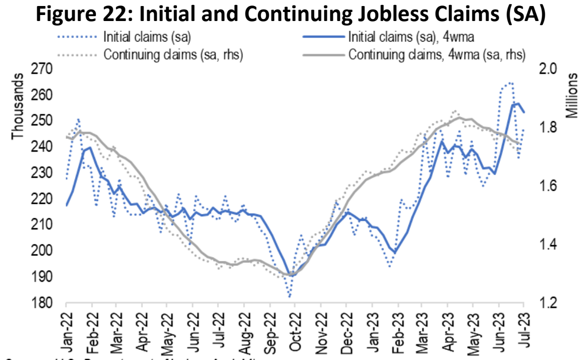



*Sources: Bureau of Labor Statistics, Arch MI*

**JOBLESS CLAIMS VOLATILITY PERSISTED BUT STILL ELEVATED RELATIVE TO EARLY 2023**

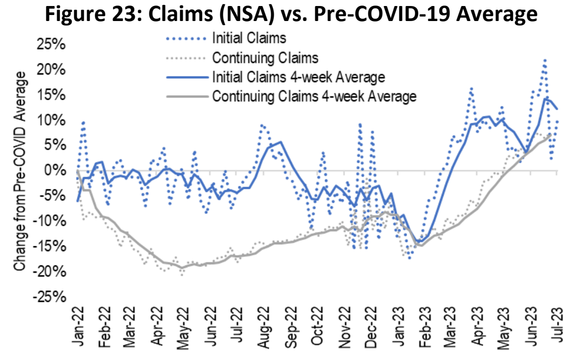
Jobless claims have moved higher over the course of 2023, although the pace of the increase and overall magnitude of the move still look more like normalization and idiosyncratic sector-specific stress rather than an early recession indicator. This view is supported by Challenger, Gray & Christmas data, which showed a rapid normalization of layoffs in June following a Tech-driven surge in job cuts from November 2022 through May 2023. Initial jobless claims data from the U.S. Department of Labor rose by 12k to a seasonally adjusted 248k (cons. 245k) during the week ending July 1, moving the four-week average down to 253k from 257k (Figure 22). The four-week average of non-seasonally adjusted initial claims moved down to 12.3% above its pre-COVID-19 average (i.e., 2018 to 2019) from 13.7% the week before and up from -17% below in mid-January (Figure 23). Continuing claims (i.e., repeat filers for unemployment insurance) declined by 13k during the week ending June 24 to a seasonally adjusted 1,720k (cons. 1,720k), moving the four-week average down to 1,747k from 1,755k. The four-week average of non-seasonally adjusted continuing claims moved up to 7% above its pre-COVID-19 average from 5.9% the week before and up from -17% below in mid-January.

**Figure 22: Initial and Continuing Jobless Claims (SA)**




*Source: U.S. Department of Labor, Arch MI*

**Figure 23: Claims (NSA) vs. Pre-COVID-19 Average**




*Source: U.S. Department of Labor, Arch MI*

## The Week Ahead

The June Consumer Price Index (CPI) release will be the headliner for this week's data releases, with the Bloomberg Consensus Survey of Economists expecting a sharp deceleration to 3.1% y/y from 4.0% in May due mostly to base effects, as the monthly pace of inflation is expected to increase slightly to 0.3% from 0.1% previously. Core inflation (excluding food and energy prices) is expected to inch down to 0.3% m/m (seasonally adjusted) from 0.4% in May, with the year-over-year pace also expected to cool to 5.0% from 5.3% previously. The June Producer Price Index is also expected to reflect a deceleration in core inflation to 2.6% from 2.8% previously even as headline producer inflation is expected to rebound to 0.2% from -0.3% in May. Meanwhile, June import prices are expected to accelerate to the downside with a year-over-year decline of -6.1% compared with -5.9% in May and consumer and small business confidence are expected to continue to climb.

### UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

| Date | Indicator | Period | Actual | Consensus | Previous | Note |
|---|---|---|---|---|---|---|
| 7/10/23 | Wholesale Inventories m/m | May F | **0.0%** | -0.1% | -0.1% | sa |
| 7/10/23 | Consumer Credit | May | **7.2** | 20.0 | 20.3 | $B, m/m, sa |
| 7/11/23 | NFIB Small Business Optimism | Jun | -- | 89.9 | 89.4 | index, sa |
| 7/12/23 | MBA Mortgage Applications | 7/7/23 | -- | -- | -4.4% | w/w, sa |
| 7/12/23 | CPI m/m | Jun | -- | 0.3% | 0.1% | sa |
| 7/12/23 | CPI Core (ex Food and Energy) m/m | Jun | -- | 0.3% | 0.4% | sa |
| 7/12/23 | CPI y/y | Jun | -- | 3.1% | 4.0% | nsa |
| 7/12/23 | CPI Core (ex Food and Energy) y/y | Jun | -- | 5.0% | 5.3% | nsa |
| 7/13/23 | PPI Final Demand m/m | Jun | -- | 0.2% | -0.3% | sa |
| 7/13/23 | PPI Core (ex Food and Energy) m/m | Jun | -- | 0.2% | 0.2% | sa |
| 7/13/23 | PPI Final Demand y/y | Jun | -- | 0.4% | 1.1% | nsa |
| 7/13/23 | PPI Core (ex Food and Energy) y/y | Jun | -- | 2.6% | 2.8% | nsa |
| 7/13/23 | Initial Jobless Claims | 7/8/23 | -- | 250 | 248 | k, sa |
| 7/13/23 | Continuing Claims | 7/1/23 | -- | 1,720 | 1,720 | k, sa |
| 7/14/23 | Import Price Index y/y | Jun | -- | -6.1% | -5.9% | nsa |
| 7/14/23 | U. of Mich. Sentiment | Jul P | -- | 65.5 | 64.4 | index, nsa |
| 7/14/23 | U. of Mich. 1 Yr Inflation | Jul P | -- | 3.1% | 3.3% | nsa |
| 7/14/23 | U. of Mich. 5-10 Yr Inflation | Jul P | -- | 3.0% | 3.0% | nsa |

*Sources: Bloomberg Consensus Survey of Economists, Arch MI*